Superstition undermines alliances

by Koen Heimeriks

Many studies conclude that the more alliances a company forms, the better it becomes at them. That makes intuitive sense—but it's not always true.

My own study of nearly 200 firms, which collectively had formed more than 3,400 alliances, found that on average the results of firms with the most experience were worse than those of firms with only moderate experience, as gauged by the percentage of alliances that achieved their goals.

Previous research has suggested that firms with a lot of experience can become overconfident of their skills and be misled by "superstitious learning"—learning based on unsupported notions about cause and effect. Often these firms have sophisticated, centralized alliance functions that codify and enforce standard practices. But if some of those practices draw on superstitious ideas about what specific actions account for good or bad outcomes, firms can perpetuate suboptimal practices, inhibit learning, and undermine alliance performance.

What, then, determines whether a firm that actively pursues alliances will perform well? My findings suggest that it is the nature of the firm's alliance mechanisms. The greater its alliance experience, the more likely it is to have institutionalizing mechanisms, which formalize decision making and enforce standardized practices such as protocols for selecting partners. But what those mechanisms offer in efficiency they lack in flexibility, particularly when it comes to learning from successes and mistakes that are clearly associated with specific actions. That's where integrating mechanisms can offer insight. They encourage employees to share experiences from previous alliances and engage in group problem solving, nurturing a collaborative mind-set and willingness to improvise. This fosters experimentation and allows companies to adapt practices to new contexts—processes that promote truly effective practices and continual improvement.

"What, then, determines whether a firm that actively pursues alliances will perform well?"

Most of the companies I studied use both institutionalizing and integrating mechanisms. How they balanced the two seemed to be a key to success. The highly experienced firms, which relied predominantly on institutionalizing mechanisms, achieved an alliance success rate of 50%, somewhat below average for the entire database. These mechanisms do not seem to improve competence but, rather, mirror confidence. Firms that, in contrast, extensively used integrating mechanisms realized an alliance success rate of 71% on average.

Managers often talk about how they tolerate productive mistakes—errors employees and the company learn from. In the case of alliances, my research suggests, mere tolerance is probably not enough. Managers should create mechanisms that encourage thoughtful trial-and-error approaches and deliberate lesson sharing. ■

Koen Heimeriks is Assistant Professor of Strategic Management, Department of Strategic Management and Business Environment, Rotterdam School of Management, Erasmus University.

This article originally appeared in Harvard Business Review - Apr 01, 2009.